

August 3, 2006

Dr. Subas Pani, IAS
Chief Secretary,
Government of Orissa
Secretariat
Bhubaneswar

Dear Dr. Pani:

India: Proposed Orissa State Roads Project (OSRP) - P096023
Preparation Mission, July 4-13, 2006

We would like to thank you and the other officials of the Government of Orissa (GOO) and the Orissa Works Department (OWD) for the kind cooperation and support extended to the World Bank mission that visited Orissa from July 4-13, 2006 for the above mentioned project. Attached for your information and perusal is the mission's finalized Aide Memoire (AM). We would like to take this opportunity to highlight some of the key issues raised in it.

Project Preparation Progress. We are pleased to note that project preparation is progressing well in the areas of detailed survey and engineering design and preparation of Detailed Project Reports. However, we are concerned that some key activities related to land acquisition and environmental and forestry clearances for the first year roads are lagging behind and could significantly delay the timing of project appraisal by the Bank. The main reason for the delay is the lack of full-time staff assigned to take care of the social and environment aspects of project preparation. Previous Bank missions have discussed and agreed with GOO on a staffing plan for the Project Coordination Unit (PCU). To prevent delays in the project preparation, it is essential that GOO complete the staffing of the PCU, and, in particular, assign without delay full-time officers from the Revenue, Forestry and Finance Departments by early August 2006. OWD should also quickly finalize the recruitment of the social development and environmental advisors, as well as the project coordinator-cum-advisor position. Furthermore, GOO should initiate notification under Section 4 (1) of Land Acquisition Act for the land required for the first year roads, by mid August 2006.

Project Steering Committee. In order to ensure effective coordination between the OWD and other government departments in matters requiring inter-departmental decisions, it was agreed that GOO would establish a high-level Project Steering Committee. The Committee would be chaired by the Development Commissioner/Additional Chief Secretary, Finance and would consist of the relevant department heads, including Secretaries for Work, Revenue, Forestry, and Special Secretaries for Planning, Finance, and Chief Engineer World Bank Project. It was also agreed that the first meeting of the Steering Committee should be held by mid August 2006. This would help expedite the implementation of the non-engineering activities in project preparation.

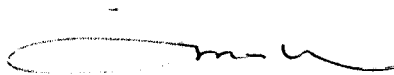
Project Components. The mission and GOO re-confirmed that the proposed OSRP will comprise: (a) Road Improvement Component, (b) Institutional Development Component, and (c) Community Development Initiative in tribal areas. The road improvement component comprises upgrading and widening of about 825 km of priority state highways through conventional contacting method and about 229 km through Public-Private Partnership (PPP) scheme. The PPP scheme will be supported through a Viability Gap Funding under Government of India (GOI) program. The proposed OSRP will support the costs of the Transaction Advisor Consultancy, and any additional gap funding requirement to make the PPP scheme financially viable.

Institutional development strategy. The proposed OSRP plans to support GOO to undertake a series of policy and institutional reforms and implement a major capacity development program aimed at modernizing the OWD and establishing an effective institutional framework for the road sector in the state. As part of the project preparation, a draft Institutional Strengthening Action Plan (ISAP) has been prepared by OWD with the help of a Facilitator. The main elements of the ISAP are discussed in Section F of the attached AM and include the establishment of an apex Road Development Authority to oversee sector-wide planning and policy development, including setting standards and guidelines and preparation of a Road Master Plan. After further review and consideration, the ISAP should be approved by GOO before project appraisal.

Project Costs and Financing. The total project cost is currently estimated at INR 1558 Crores (US\$346 million), which is slightly higher than estimated during project preparation in September 2005. The loan amount agreed between the Bank and the Department of Economic Affairs (DEA) for OSRP is US\$250 million. However, the size of the loan may have to increase to \$277 million in order to cover the estimated higher construction cost and maintain the 80-20 percent cost sharing arrangement between GOO and the Bank loan. GOO should discuss with DEA at the earliest the possibility of increasing the loan amount, and advise the Bank accordingly. Otherwise, GOO may need to provide additional counterpart funding if the loan size will remain at the current level, or the project scope may need to be downsized to \$313 million.

Project Processing Timetable. Due to some delays in project preparation, a revised timetable for project processing taking into account the progress made thus far and remaining actions for project appraisal. The Key Actions for project preparation and appraisal are summarized in paragraph 7-9 and detailed in Table 4 of the attached AM. If the agreed timetable is maintained, we expect the proposed project to be ready for appraisal in March 2007.

Yours sincerely,



Faye Omar
Acting Country Director for India

Copy to:

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INDIA
PROPOSED ORISSA STATE ROADS PROJECT (P096023)

PREPARATION MISSION
JULY 4-13, 2006

AIDE MEMOIRE

A. Introduction

1. A World Bank mission comprising Binyam Reja (Sr. Transport Economist/Task Team Leader), A. K. Swaminathan (Sr. Transport Specialist), Isabel Chatterton (Financial Specialist), Mohammad Hassan (Sr. Social Development Specialist), Manmohan Singh Bajaj (Sr. Procurement Specialist), and Manvinder Mammak (Sr. Financial Management Specialist) visited Orissa from July 4-13, 2006 for various periods for the preparation mission of the proposed Orissa State Roads Project (OSRP). Ms. Neha Vyas (Environmental Specialist) visited Orissa during June 21-24, 2006 to support the preparation of the environmental aspect of the project. Mr. Sanjay Srivastava (Sr. Environmental Specialist) supported the mission and provided input from the World Bank Delhi Office.

2. The mission met with concerned officials of the Government of Orissa (GOO) and senior officials and staff of the Orissa Works Department (OWD), and worked closely with staff from the Project Coordination Unit (PCU) of the proposed OSRP. The list of people met during the mission is shown in Annex 1. The Aide Memoire (AM) was discussed in a draft form with concerned GOO officials in a wrap up meeting chaired by the Works Department Secretary on July 12, 2006. The mission thanks GOO and OWD officials for their kind cooperation and support to the mission.

B. Summary of Project Preparation Progress and Appraisal Prior Actions

3. *Project preparation progress is mixed.* On technical matters, project preparation is progressing well, especially in the areas of detailed survey and engineering design. So far, the consultant has completed the preliminary economic viability report and social and environmental screening reports. In addition, the consultant is preparing the Detailed Project Reports (DPR) for about 360 km of first year roads, including the required environment and social safeguard documents. These reports are expected to be delivered by end-Nov 2006. Bid documents for first year contracts would also be ready by end-December 2006.

4. However, a number of activities related to land acquisition and environmental and forestry clearances for first year roads are lagging behind and could significantly delay when the project could be ready for appraisal by the Bank. The main reason for the delay is the lack of full time staff assigned for social and environment aspects. GOO needs to ensure that the PCU is fully staffed as per the staffing plan agreed during previous Bank missions. In particular, GOO needs to assign full-time Officers from the Revenue,

Forestry and Finance Departments and some more junior-level engineers to the PCU to support project preparation. OWD should also quickly finalize the recruitment of the social development and environmental advisors to be the focal persons for social and environment issues in the PCU. Finally, there is a need to ensure staff stability within the project team. The key staff in the project team should be in place for at least 3 years to enable continuity from preparation into implementation.

5. ***Project Oversight and Coordination by GOO.*** Another factor that has caused delays in non-engineering matters is the lack of effective coordination with other government departments. The PCU staff does not have access to senior government officials in other departments and therefore could not get decisions made on matters related to the project. In order to mitigate this problem, during the previous Bank mission, it was discussed and agreed to engage the services of a senior retired government official as a project coordinator-cum-advisor to support the PCU. The recruitment of the coordinator is now in advance stages and should be concluded by mid-August 2006. In addition, during this mission, it was discussed the need to have high-level Steering Committee to oversee project preparation. The Project Steering Committee would be chaired by the Development Commissioner, and would comprise the relevant department heads, including Secretaries for Work, Revenue, Forestry, and Special Secretaries for Planning, Finance, and Chief Engineer World Bank Project and relevant PCU members.

6. On ***institutional development strategy***, Good progress has been achieved. A first draft Institutional Strengthening Action Plan (ISAP) was prepared by OWD with the help of a Facilitator. The draft ISAP was discussed in stakeholders' workshop in April 2006. The next step in finalizing the ISAP is to hold a second workshop with high-level government officials, after which the ISAP would be submitted for GOO's consideration. The second ISAP workshop is planned for mid-August 2006.

7. ***Key Actions Required.*** The GOO/OWD and the Bank mission discussed the need for undertaking the following key actions in order to expedite project preparation and ensure timely project appraisal and approval.

- (a) GOO to assign officers from Revenue, Forestry, and Finance Departments and some more junior-level engineers to the PCU by early-August 2006;
- (b) OWD to engage the services of Environmental and Social Development advisors as focal persons in the PCU to support the preparation of the environment and social aspects of the project by early-August 2006;
- (c) GOO to engage the services of Coordinator-cum-Advisor for inter departmental coordination and Institutional Development Component by early-August 2006;
- (d) Development Commissioner to convene the first meeting of the Project Steering Committee by mid-August 2006, and thereafter hold bi-weekly meetings, or as and when required;
- (e) PCU to issue RFP to short listed firms for PPP Transaction Adviser services by mid-August 2006;

- (f) PCU to issue Request for Proposal (RFP) to short listed firms for Asset Management System consultancy by mid-August 2006;
- (g) PCU to prepare draft TOR and RFP for Project Management Consultant (Supervision Consultant for first year roads) by mid-August 2006;
- (h) OWD and Facilitator to prepare revised draft Institutional Strengthening Action Plan (ISAP) by end-August 2006;
- (i) PCU to prepare draft TOR and issue EOI for ISAP implementation services by end-September 2006;
- (j) Consultants and OWD complete engineering designs for First Year roads, preparation of the bid documents and inviting the bids by mid-December 2006;
- (k) Consultant and OWD complete environmental and social assessments and management plans for First Year roads by End-November 2006;
- (l) GOO and OWD to ensure that the land for the first section of the first year road contract will be handed over to the contractor encumbrance free (LA, R&R and utility shifting completed) by April 2007; and
- (m) GOO and OWD to obtain all central and government clearance pertaining to forestry, wildlife and pollution for first year roads by December 2006.

8. ***Project Timetable.*** As agreed by the World Bank and DEA, the project readiness requirement entails the following actions to be completed before the project appraisal and loan negotiations can take place:

- i. Bids for first year contracts received prior to negotiations and award finalized for such contracts prior to Board approval;
- ii. Land acquisition and resettlement
 - Land acquisition and resettlement plans are ready
 - Land acquired and people resettled for first year roads.
 - Land to be made available for civil works for the first section(s) of the first phase.
 - Land acquisition / pre-construction activities, including utility shifting and tree cutting, for first year completed by negotiations.
- iii Resettlement Policy Framework (RPF), Environment Assessment (EA), Environment Management Plan (EMP), Resettlement Action Plan (RAP)/ Indigenous People Development Plan (IPDP) prepared and submitted to the Bank and disclosed to the public prior to appraisal; and
- ii. All central and state government clearance pertaining to forestry, wildlife, pollution etc. for first year roads obtained.

9. Based on discussions with OWD on how fast the above appraisal and negotiations conditions could be achieved, the tentative timetable for project processing is provided below. These dates could be brought forward if GOO and OWD expedite the preparatory activities and meet the above conditions in a timely manner.

- Project Appraisal – March 2007
- Loan Negotiations – May 2007
- Loan Approval – July 2007

C. Project Components and Cost

Project Cost and Financing

10. The mission and GOO re-confirmed the components for the proposed OSRP as follows: (a) Road Improvement Component, (b) Institutional Development Component, and (c) Community Development Initiative in tribal areas. The road improvement component comprises two sub-components: *upgrading and widening of about 825* through public sector financing and conventional contacting method and *Public-Private Partnership (PPP)* schemes for upgrading and widening of about 229 km of highly trafficked roads.

11. The total project cost is currently estimated at INR 1558 Crores (US\$346 million), which is slightly higher than estimated during project preparation in September 2005. The increase is in part due to the higher than expected unit costs for road construction. The loan amount agreed between the Bank and the Government of India Department of Economic Affairs (DEA) for OSRP is US\$250 million. However, the size of the loan may have to increase to \$277 million in order to cover the estimated higher construction costs and maintain the 80-20 percent cost sharing arrangement between GOO and the Bank loan. GOO should discuss with DEA at the earliest the possibility of increasing the loan amount, and advise the Bank accordingly. Otherwise, GOO may need to provide the additional counterpart funding if the loan size will remain at the current level.

Table 1 Preliminary Project Cost and Financing Arrangement

Project Component	Preliminary Cost	WB Financing	GOO Financing	Preliminary Cost	WB Financing	GOO Financing
	INR Millions			USD Millions		
Road Improvement Component						
Upgrading sub-component (825 km)	13,752	11,002	2,750	306	244	61
PPP Sub-component (229 km)	TBD	TBD	TBD	TBD	TBD	TBD
Institutional Development Component	225	180	45	5.00	4.00	1.00
Community Development Initiative	225	180	45	5.00	4.00	1.00
R&R	TBD	TBD	TBD	TBD	TBD	TBD
Contingencies	1,375	1,100	275	31	24	6
Total	15,577	12,462	3,115	346	277	69

Upgrading and widening Sub-component under Public Sector Financing

12. The list of the proposed project roads under the upgrading sub-component, including the preliminary cost estimates, is provided in Table 2. About 360 km have been identified as *First Year* roads and are shown in *italic* in Table 2. The project roads would

be upgraded to double lanes from their current single/intermediate lane width. The double-lane will be 7 meters carriage way with paved or soft shoulders, depending on traffic projections and the location of the road link.

13. During the mission, a few additions and deletions from the Second Year roads were discussed. Part of the **Anadpur-Jashipur** road passes through an environmentally sensitive area and has relatively low traffic. Some of the traffic is also diverted to the National Highway (NH-215) via SH-49. Therefore, OWD is considering replacing some stretches of the Anadpur-Jashipur by SH-49 from Karnjia to NH-215 to ensure a better traffic circulation and avoid unnecessary upgrading in an environmentally sensitive road stretch. OWD and the consultant team will visit the site and inform the Bank accordingly on changes to be made by end-August 2006.

14. In addition, in the **Banarpal – Daspalla -Bhanjanagar – Aska** corridor, there is a missing link, namely Daspalla –Bhanjanagar that is not included in the proposed project. Leaving the link to later time could delay the benefit from the current investment. Therefore, OWD may wish to include the missing link in the current improvement scheme. OWD will review the possibility of inclusion the missing link in the corridor improvement and inform the Bank on its decision by end-August 2006.

Table 2 Proposed Project Roads for Upgrading and Widening sub-component

Road Name	State Highway	Length (km)	Unit Cost (million INR/km)	Total Estimated Cost (INR million)	Total Costs (USD million)
Jagatpur – Kendrapara – Chandbali – Bhadrak					
Jagatpur – Kendrapara – Chandbali	SH – 9A	99	20	1980	44.00
Chandbali -Bhadrak (First Year Road)	SH – 9	53	20	1060	23.56
Total		152		3040	67.56
Bhadrak – Anadpur – Karanjia – Jashipur (Tangabila)					
Bhadrak – Anadpur (First Year Road)	SH – 53	46	20	920	20.44
Anadpur – Karanjia	SH – 53	79	16	1264	28.09
Karanjia – Jashipur (Tangabila)	SH – 49	17	16	272	6.04
Total		142		2456	54.6
Berhampur – Rayagad					
Berhampur – Bangi Jn (First Year Roads)	SH – 17	150	16	2400	53.33
Bangi Jn. – JK Pur (First Year Road)	SH – 4	41	16	656	14.58
Total		191		3056	67.9
Kharaiar – Bhawanipatna – Muniguda – Rayagada – Kereda					
Kharaiar – Bhawanipatna (First Year Road)	SH – 16	70	16	1120	24.89
Bhawanipatna – Muniguda	SH – 6	68	16	1088	24.18
Muniguda – Bisam Katak – Rayagada	SH – 5	50	16	800	17.78
Total		188		3008	66.84
Banarpal – Daspalla and Bhanjanagar – Aska					
Banarpal – Daspalla	MDR – 18/19	89	16	1424	31.64

Bhanjanagar – Aska	SH – 7	38	16	608	13.51
Total		127		2032	45.16
Total (Project Roads)		810		13752	305.6
Total (First Year Roads)		360		6156	136.8

Upgrading and Widening under PPP Scheme

15. An earlier World Bank mission (May 1-5, 2006) undertook high-level pre-feasibility screening analysis to select potential roads that could be financed on a PPP basis. A note summarizing the mission's findings and recommendations was discussed and sent to GOO prior to the mission. The mission further discussed with OWD and GOO the results of the Note and confirmed the roads that could be further studied for possible financing under PPP scheme.

16. The candidate roads analyzed during the May 2006 mission are shown in Table 3 below. These were selected after extensive consultations with stakeholders in Orissa, including Secretaries for Industry Department, Works Department, Advisor Planning and Coordination Ministry, Chief Engineers for Roads and World Bank Project, as well as OWD field executive engineers.

Table 3 Roads Analyzed for Possible PPP Financing

Road	Length (km)	Proposed Improvement	Tariff Rate	EIRR	Capital Contribution
SH-10	165	4-lanning	Base	29.66	0
			Low (50% of Base)	20.1	0
Joda-Bamberi	18	7 meters with PS	Base	26.95	0
			Low (50% of Base)	14.54	40%
Koira-Rajamunda	46	7 meters with PS	Base	46.6	0
			Low (50% of Base)	18.89	0
Suakati-Dubuna	56	7 meters with PS	Base	10.7	40%
			Traffic High	18.8	40%

17. The high-level analysis suggests that SH-10, Joda-Bamberi and Koira-Rajamunda may be viable PPP projects and therefore are worthy of a detail feasibility study. Suakati-Dubuna is very marginally viable and requires the maximum capital contribution to be eligible for Viability Gap Funding. The candidate roads were considered as viable PPPs if the EIRR was 20% or higher and the Capital Contribution did not exceed 40% under the Base Case assumptions.

18. After consultations with OWD, it has been agreed that the three roads (SH-10, Joda-Bamberi and Koira-Rajamunda) will be included in the scope of services for the Transaction Advisor, as part of the preparation of the proposed OSRP. The Transaction Advisor would then undertake a full feasibility study based on which GOO can make the

decision to proceed or not with this road as a PPP. The Transaction Advisor will assist GOO to obtain Viability Gap Funding from GOI. Any additional contribution required from the state to make the PPP scheme financially viable could be financed from the proposed OSRP.

19. **Transaction Advisor Short List and RFP** were discussed during the mission with OWD and the views the Bank were communicated. The PCU should now submit to the Bank for formal clearance of the RFP including short list.

D. Project Preparation Studies and Technical Review

Economic Evaluation

20. Preliminary economic viability analysis has been undertaken on project roads, and the results indicate that the proposed roads will have economic rate of returns ranging from 22% to 39%. These results would need to be confirmed through a detailed economic feasibility study, using the detailed cost estimates and more rigorous traffic count and projections used to prepare the DPR. The detailed feasibility study, which is currently underway, is expected to be completed by end-September 2006.

21. The mission held discussions with the consultant and OWD on the methodology used for feasibility study, in particular the traffic forecasts for project roads. The mission finds that the traffic growth rate adopted by the consultant was significantly higher than what is usually assumed for the type of roads and traffic conditions prevailing in the project areas. The traffic growth rate adopted was based on calculations of changes in vehicle registration in relation to growth in GDP per capita. The vehicle registration figure was used because there are no historical traffic counts on project roads. However, this has led to a relatively higher income elasticity factor, and thus, high traffic growth rate. Therefore, in order to avoid unreasonable traffic projections, it was agreed that the consultant would use an elasticity rate closer to the GDP and GDP per capita growth rates to forecast freight and passenger traffic growth rates respectively in project roads.

22. **Network Analysis.** A network analysis is being carried out on about 3,700 km of state highways to identify about 1,600 km of roads that could be upgraded and developed as high priorities. The consultant has already collected field data, including traffic counts and road conditions survey. The results of the network analysis and prioritization will be ready by November 2006.

Technical Aspects

23. **Design and Engineering Issues.** The mission had detailed discussions with the OWD and the design consultant to agree on the basic principles for horizontal, vertical and pavement designs of the road. Based on present traffic data and its projection the following two options of road width will be looked into by OWD:

- (i) 7.0m pavement + 2 x 1.5m gravel/earthen shoulders for the Behrampur-Rayagada road and Bhawanipatna-Khariar road. The absolute minimum corridor of impact (COI) in these stretches in built-up areas will then be 15m.

If land needs to be acquired then such acquisition will be done up to 16m. In non-built-up sections the minimum COI (assuming an embankment height of 2m) will be about 22m; and,

- (ii) 7.0m pavement + 2x1.5 m paved shoulders+2x1m unpaved shoulders for Chandbali-Bhadrak-Anandpur road. The absolute minimum corridor of impact (COI) in these stretches in built-up areas will then be 17m and if land needs to be acquired land will be acquired up to 18m. In non-built-up sections the minimum COI (assuming an embankment height of 2m) will be about 25m.

24. It was discussed and agreed that retention of the existing pavement should not be a constraint on the designs of horizontal and vertical alignments. The overall design parameters assumed by the consultants and OWD for designing the roads in plain, rolling and hilly areas are more or less consistent with the Indian code provisions. Designs would need to provide for widening roads and bridges at curves, footpaths on bridges and near built-up areas wherever required, side drains, truck lay byes, bus stops etc. In urban/built areas the roads could be completely paved right up to the edge of the footpath/drain. It was agreed that based on the detailed discussion held with OWD and the consultants, the designs will be revised and confirmed based on site visits in the next few weeks. Based on the modification to traffic growth agreed with the Bank during the mission, the pavement designs will be modified. Mechanistic designs as indicated in the Indian codes will also need to be tried out and appropriate values of pavement crust thickness for the strengthening and the new pavements, after comparison with international guidelines, will need to be finalized. The land acquisition, R&R and environmental impacts would need to be based on the final designs to meet with the engineering needs of speed, safety, durability requirements as per the relevant IRC codes and local requirements. The existing horizontal and vertical alignments may need some modifications at some critical spots to avoid sharp curves and/or accident black spots. Provisioning of village markets in tribal areas, bus and truck-byes need to be done at appropriate places based on public consultation. Other aspects like lane marking, road signs, junction improvements with important major roads etc. would also need to be considered by the design consultant. The mission discussed the need for bypasses in critical portions of the year 1 roads like Behrampur, Digapahandi and other places. These could be included for implementation under year 2 roads if proved feasible.

25. The mission reviewed some preliminary designs of bridges done by the consultant along with OWD and conveyed its comments to the consultants and OWD. The non-destructive testing process on bridges for determining those existing bridges which will need to be retained have not commenced yet. This is now in the critical path and would need to be started and completed as soon as possible. It was agreed that the consultant will submit all design calculations including annexes for waterway, bearing capacity, settlement and structural design calculations to OWD in full. OWD also will need to discuss and communicate its comments within a fortnight to the consultant.

26. It was agreed that based on finalized horizontal and vertical alignments, the consultant will stake out the final COI points at the field as well as transfer them to the maps based on data of the approved Right Of Way to be provided by OWD. Hence OWD

will need to finalize the ROW based on RORs and hand over these to the consultant to enable them to quantify the land/R&R impacts. Road widening will have implications on shifting of underground utilities like OFC. This needs to be assessed. OWD would also need to ensure that no permission is given to utility organizations to lay new utilities on the project roads without consulting and approval to the CE (OSRP).

E. Environment and Social Impact Management

Social Safeguards

27. The mission was informed that the census survey of the potential affected families had been completed (except 90 km. Daspalla-Banarpar stretch) including identification of all structures coming within 20 meter Right of Way (ROW). The survey results have been plotted on strip maps indicating structures coming within the 20 meter ROW. The detailed engineering designs would be super imposed on these strip maps to identify not only the extent of losses but also the need for any land acquisition (LA) to accommodate realignments of roads, wherever required (for details see Annex 2) This will also help identify area (and structures) outside 20 mtr. ROW, likely to be affected due to proposed interventions. It was agreed that identifying affected structures and land would be completed for the first 42 km of Berhampur-Rayagada road, for which detailed designs had been completed, by end-July 2006. Based on this, the consultants would help the PCU in preparing land plan (LP) schedules. This process would be applied in the subsequent stretches as detailed engineering designs are completed as well as for roads proposed to be covered under PPP schemes.

28. During the January 2006 mission, the consultants had reported difficulties in accessing revenue records, particularly Record of Rights (ROR), to establish ROW. During discussions with the District Collectors of Cuttack and Ganjam, it was revealed that the District Collectors were ready to cooperate with OWD in arranging RORs, no serious efforts appear to have been made by the district level staff to procure the RORs. The mission urged OWD to follow up with the District Collectors and get RORs for the areas coming under first year packages, on an urgent basis. This will help prepare LP schedules and facilitate to proceed with LA process. The mission urged PCU to initiate LA process to ensure that land required for first year packages are acquired before contracts are finalized. The mission cautioned that any slippages on this account would have serious impacts on the project approval process. It was agreed that the initial notification under section 4(1) of LA Act would be made by early-August 2006, for the stretches whose designs have been completed.

29. There is a need to take immediate steps to strengthen PCU on managing social issues related to the project. The mission was informed that the PCU has prepared RFP for engaging Social Development Advisor (SDA). It was agreed that the process of appointing a suitable candidate as SDA would be completed by mid August 2006. In addition, since the current Revenue Officer in the PCU is too busy with his primary responsibilities and hardly gets time for this project, the mission expressed its serious concerns and warned that this may jeopardize the project preparation. The mission was

assured that a full time LA Officer along with support staff would be in place once Government approves the proposed institutional structure for the PCU.

30. **Community Development Initiative.** This component will assist tribal communities living along road corridors with assistance for demand-driven initiatives, such as marketing stalls and other minor infrastructure. In addition, it will provide for community road safety awareness and HIV/AIDS prevention campaign initiatives. The consultants are reported to have initiated the stakeholders' consultation at different levels – block, district and state. The mission emphasized the need to have a more structured consultation process in order to get meaningful feed back into the project design. The strategy on community development component of the project including the issues related to HIV/AIDS should largely be drawn from these feed back. The mission strongly recommended for documenting all consultations both in terms of the main issues raised and discussed and consensus reached.

Environment Aspects

31. The mission discussed with OWD and the preparation consultants the over-all status of environmental activities for Phase I roads, the EA methodology and public consultation and assessment of impacts on wildlife; project appraisal targets including regulatory requirements (GOI, GOO and WB); and institutional arrangements for the project. Details are provided in Annex 3.

32. **EIA preparation.** The environment screening and scoping exercise has identified some key environmental concerns that need to be addressed through comprehensive EIA covering extensive baseline surveys, systematic impact assessment, analysis of alternatives, public consultation and preparation of corridor specific management/mitigation plans. The mission reviewed in detail the proposed EIA methodology required in line with findings from the Environment Screening Report and provided comments for strengthening the various outputs. The mission suggested that a comprehensive methodology (in line with discussions during the mission) including the approach for assessing the issues related to forest and wildlife (which have emerged as key concerns) should be shared with the Bank by end-July 2006 to minimize revisions/updates during the report's finalization stage.

33. **Institutional Arrangements and Capacity Building.** The position of an Environmental Specialist within the PCU is still vacant. The OWD assured that the said appointment will be completed by **mid-August, 2006**. The mission has agreed to provide support and initial training to help build awareness and enhance capacity on handling environmental aspects.

34. **Independent EA Review.** A sample Terms of Reference for Independent EA Review Consultant was provided to OWD prior to the mission. The scope of the work and the purpose of the assignment were also discussed and explained at length. The OWD informed that the consultant is likely to be appointed by **End-August 2006**.

35. ***Project Appraisal Requirements.*** The mission identified key actions that have to be completed prior to the project appraisal. These include finalization of EIA along with corridor specific EMPs, disclosure of all documents (including local level and WB's Info Shop), completion of Independent EA Study, institutional arrangements for environment supervision; preparation of a over-all training plan for EM; first round of orientation and training of all staff involved in the project; and submission of applications for all regulatory clearances prior to appraisal. It was agreed that a time schedule to achieve the stated targets will be shared with the Bank by July 31, 2006.

F. Institutional Development Strategy and Components

36. The mission held further discussions with GOO and OWD on the Institutional Development Strategy (IDS) to be supported under the proposed OSRP. The IDS largely remains the same as what was discussed in pervious Bank missions, with some changes agreed during the current mission. The OWD with support from an external Facilitator has prepared a draft ISAP, which will be the basis for the IDS and project support. An earlier draft of the ISAP was discussed in stakeholders' workshop in late-April 2006. OWD is to organize a second workshop with senior government officials to discuss and receive feedback on the latest draft ISAP. Based on the feedback received from the second workshop, the ISAP will be finalized and submitted formally for GOO's consideration and endorsement. Technical assistance and advisory services for the implementation of the ISAP were identified during the mission and discussed below.

37. The ISAP contains three main elements: policy and planning framework, OWD organizational restructuring, and OWD capacity building measures. These are discussed briefly below.

Policy and Planning Framework

38. ***Preparation of Road Master Plan.*** Orissa has over 220,000 km of roads, which are managed by several road agencies, with little sector-wide planning and coordination among each other. This scheme has resulted in poor network integration of the different road hierarchies and in poor traffic circulation and services to road users. The road classification is outdated and mostly determined by administrative setup and financing sources. The state urgently needs a more integrated and planned road network to maximize the benefits of the large road sector investment currently being undertaken through various schemes. It is therefore essential that Orissa has a **road network master plan**, which has an integrated and classified road network. This has been GOO's plan for sometime, and has already allocated some resources for the preparation of such master plan. The proposed OSRP will augment the preparation of the road master plan by making additional resources available and bring international and national experience to bear in the preparation of the master plan. The master plan will then guide GOO's development and maintenance program in the sector overall regardless of which road agency carries out the implementation.

39. ***Establishment of an apex Road Development Authority in Orissa for Policy and Planning.*** Any sector-wide planning and policy development will require a state-level

body to over the planning aspect on behalf of the government. The various road agencies in the state are mostly engaged in the implementation of road projects and carry out very little policy development and planning. Moreover, there is no state-level organisation responsible for ensuring that GOO's road sector policies are achieved and that the road sector meets the overall government objectives. In many countries, policy and planning function is carried out separately from day-to-day implementation and management issues to clarify responsibilities and bring focus on policy matters. During discussions in the mission, it was found that GOO plans to establish a road development authority as an apex body responsible for policy, planning, setting standards and guidelines for the road sector. The Road Development Authority would be main agency responsible for administering and overseeing the development of the road sector on behalf of the government. It will be headed by a competent Chairman and would have a board drawn from various stakeholders. Initially, the Authority would be established through a government order as a "society", and would be subsequently formalized through an Act of state Legislative Assembly. The details of the Road Authority need to be worked out and an Action Plan need to be developed to bring the Authority into effect. The mission agreed in principle to support the establishment of the Authority. Once established, the preparation of the road master plan, road policy and standards, among other things, would be entrusted to the Authority.

40. ***Sustainable Road Maintenance Funding.*** Although the overall outlook for road infrastructure funding in Orissa is improving considerably, especially with additional financing from the 12th Finance Commission and the state's improved fiscal standing, the historical vulnerability and inadequacy of funding for road maintenance, and the considerable state-wide backlog and future maintenance obligations, suggest that the introduction of a dedicated maintenance funding mechanisms in Orissa would be desirable to ensure the sustainability of the road sector. In order to assess the need for establishing such a mechanism, it was discussed and agreed to undertake a Road Financing Study to: (i) review the current road transport tax and user charge regime, and develop new/additional user charges for road maintenance; and, (ii) make detailed recommendations on the desirability and operating modalities of a potential road fund to channel road user charges into road maintenance expenditure. It was agreed that a terms of reference will be drafted to undertake the above study, and the Bank can share a draft indicative TOR for this, if required.

41. ***Road Safety.*** The mission discussed the need to establish, equip and strengthen a dedicate State Highway Patrol to ensure safety on state roads. The State Highway Patrol (SHP) would be similar to NHAI's highway patrol, but would have additional safety enforcement responsibilities. In particular, the SHP responsibilities would include:

- Move injured persons and disabled vehicle from State Highways
- Record accidents and maintain road accident database.
- Impose fine on the spot for traffic rules violation.
- Afterwards the case can be investigated by the territorial police station.

42. GOO would need to develop a legal framework for the establishment of the SHP, including where it would be housed. In the meantime, OWD should prepare an Action Plan for its operationalizing, including the staffing and equipment requirements.

43. **Road Sector Policy.** A Road Sector Policy has been under preparation for some time. However, given that there are new developments in the sector and the advance stages of the ISAP preparation, the Road Sector Policy would benefit from updating to take into account these developments. In particular, the establishment of a Road Authority, Road Fund, and State Highway Patrol would need to figure prominently in the Policy.

OWD Organizational Restructuring

44. The current OWD structure is organized as a traditional public works department with very little customer orientation and service delivery focus. The OWD covers roads, sanitation and most of the public works in the state. This has had the effect of spreading human and financial resources too thinly among the various sectors managed by OWD, and more importantly depriving the most important assets in the OWD adequate resources for their development and maintenance. In many countries and some states in India, the management of road sector and other infrastructure sector are increasingly being separated to benefit from specialization and to deploy adequate resources to each infrastructure sector. Moreover, some states dedicate human and financial resources for the development and maintenance of the most important roads in the state – the core road network (CRN). While the break up of OWD into separate infrastructure departments is not envisaged in the near term by GOO, there would be a need to undertake an internal restructuring of OWD to provide better focus on the management of the road sector, especially for the CRN. In particular, the OWD may wish to identify about 5,000-8,000 km of the most important roads and entrust them to a separate Chief Engineer, Core Road Network. Currently all 14,400 km of roads in the state are managed under one Chief Engineer Roads. A separate Chief Engineer would ensure that the CRN will be managed effectively and the users would have improved services from the CRN. In order to operationalize this structure, OWD will need to identify and designate about 5,000-8,000 km as CRN. After which, GOO will need to assign a separate budget head for CRN in the next year budget and authorize the Chief Engineer, CRN to execute the budget from the next fiscal year. The timetable for operationalizing the new structure for CRN is as follows:

- OWD to identify and designate CRN – January 2007.
- GOO to assign budget head for CRN and at – April 2007 (new fiscal year).

45. **OWD Capacity Building Program.** The draft ISAP has identified capacity development programs for improving the managerial and organizational capacity of OWD. The primary areas of capacity building envisage under the proposed OSRP include the following:

- Training and skills development in core areas

- Monitoring and Evaluation, including IT/ITC
- Asset Management System
- Capacity to facilitate PPP and BOT for roads
- Improved procurement and contract management practices
- Construction industry review

G. Procurement Aspects

46. The mission had discussions with various state officials in respect of the ongoing project preparation. It reviewed the progress made by the PCU to engage individual consultants for Social Development and Environmental aspects of the project. TOR and cost estimates for these two consultancy assignments had been already cleared with the Bank and the process of finalization of the contracts was ongoing. The mission advised the PCU to expedite appointments, following the model documents provided to them earlier, on urgent basis, in view of the critical requirements for the project.

47. The mission had discussions with PCU for finalization of Procurement Plan for the first 18 months. The PCU shall incorporate the comments/observations and update the Plan for Bank's review by mid-August 2006.

48. ***Procurement Capacity and Risk Assessment.*** The mission also had discussions with the PCU and OWD in respect of the details and documents provided by them to the mission for Procurement Capacity and Risk Assessment using computerized dynamic risk assessment tool and advised that at the end of the assessment a mitigation plan will be prepared and agreed with the GOO for implementation during the project period. The mission shared with the PCU the features of the tool and held preliminary discussions on the draft mitigation plan generated on the basis of the details entered in the system, which is attached in Annex 4. The actions and the timetable for these actions will be discussed in details and agreed to with the GOO.

49. ***Status of e-procurement.*** The mission had a detailed review of the status of e-procurement initiative in the state and held discussions with Secretary Muni (Works Department) and Secretary Tripathi (Information Technology and Rural Development Department) on the next steps to operationalize e-procurement in the state. While it is observed that the progress on this work has been very slow and still in an early stage of development, the mission conveyed that the Bank would consider its plan to assist the OWD during implementation, considering that the Bank had very specific requests pertaining to assessment of a system's suitability for procurement related to projects funded by the Bank.

Procurement Packages for Consultancy Services

50. There are several procurement packages to be procured by OWD during project preparation and implementation. The procurement of the first package for the Preparation Consultant (Package 1) under GOO financing has already been completed and the consultant has been fully engaged for the last several months in the preparation of Project

roads. The mission discussed the status of the previously agreed procurement packages and identified new ones and agreed on timetable for their procurement as follows.

51. Package 2 – **Project Management Consultancy (PMC)** for construction supervision of Project roads. The EOI for the construction supervision of Year 1 roads has been published in UNDP/DgMarket. The PCU now needs to prepare the TOR on the basis of an outline TOR the Bank shared in previous missions. The draft TOR should be submitted to the Bank for review by end-August 2006.

52. Package 3 –**Public Private Partnership (PPP) Transaction Advisor.** The OWD is in the final stages of issuing of RFP to short listed firms, and these should take place in by early-August. The mission reminded OWD that the Transaction Advisor would need to be mobilized and complete the first phase of its task before project appraisal.

53. Package 4 –**Road Asset Management Consultancy.** The TOR and the shortlist for the consultant services to develop and establish an Asset Management system was discussed and the views of the Bank were communicated to OWD. Bank advised the OWD to finalize the shortlist, TOR and incorporate them in the draft Request for Proposals (RFP) and submit to the Bank for its final clearance, and these should be sent to the Bank by early-August 2006.

54. Package 5 and 6 – **Social Development and Environment Advisors.** These will be two individual advisors to support the PCU with the preparation of the social and environment aspects of the project, including quality review of the consultant's work and supporting PCU to obtain the required government clearances and liaising with various departments. The Letter of Invitation was discussed with the PCU during the mission and the mission's views have been communicated. The PCU should now go ahead and negotiate with the selected consultants. The consultants are expected to be hired by early-August 2006.

55. Package 7 – **Project Coordinator-cum-Advisor.** The mission discussed the TOR for these services and OWD could go ahead and issue the Letter of Invitation to selected advisor. It is expected the advisor will be recruited by early-August 2006.

56. During the current mission, the following packages were identified.

57. Package 8 – **Preparation of Road Network Master Plan and Support the Establishment of the Orissa State Road Authority.** This consultancy services will support the GOO to establish an apex road authority to be responsible for planning and policy development. Once the road authority is established, the consultant will also support the preparation of the road master plan. The PCU will need to start working on a draft TOR for such services. The Bank has agreed to provide an outline TOR for such a consultancy service.

58. Package 10 – **Road Financing Study.** This consultancy services will review the road user charges mechanism in the state and develop institutional options to channel road user charges for road maintenance. The Bank will share a sample TOR used in a

separate state in India. On this basis, the PCU will prepare a draft TOR and EOI and submit to the Bank by early-September 2006.

59. **Package 11 – Revising Codes and Manuals, Preparation of Sample Bidding Document and Procurement Manual.** TOR for this service was discussed in the previous mission, but the PCU has not moved with the procurement of this service. The mission learned that this task is now being handled in a different unit of the OWD. However, it would be important that the PCU is fully engaged during the procurement and execution of this task. Therefore, the mission recommended that the PCU should develop cost estimate for the service, finalize the TOR and procure the services of a reputable institutions to undertake this task. The TOR and cost estimate should be submitted to the Bank by end-August 2006.

60. **Package 12 – Training Needs Assessment and Establishment of the Construction Academy.** An individual consultant or firm would be hired to undertake a training needs assessment for OWD and develop training program for each unit and skills area. In addition, depending on the training needs assessment, a separate consultancy will be developed to support the GOO to establish a Construction Academy to training and develop skills in all aspects of construction to meet the demands of both private and public sector institutions. TOR for TNA will be ready by mid-September 2006, and the Bank will share an outline TOR with the PCU, on which basis the PCU may prepare a draft TOR.

61. **Package 13 – Monitoring and Evaluation, IT, ICT and MIS.** An MIS-based Monitoring and Evaluation is envisaged. The consultancy will develop the M&E architecture and determine the IT/ITC requirement to develop a full-fledge M&E system in OWD. OWD will pre-draft the TORs and will submit them for Bank's review by early September 2006.

H. Financial Management Aspects

62. ***Proposed Institutional Arrangements.*** OWD will be the main implementing agency for the proposed project. A PCU has been established at the state level for the preparation of the project and will continue to be the operational unit within the OWD, responsible for the planning and implementation of the project. The OWD will implement the project components for upgrading roads with support from its field level divisions.

63. OWD as a department of the Government of Orissa follows the financial rules and procedures laid down in the Orissa Public Works Department (OPWD) Code (for the delegation of authority etc.) and Central Public Works Accounts Code (for accounting and reporting procedures). For all capital and maintenance works that have been budgeted for, funds are released by the Finance Department of GOO, through the LoC (Letter of Credit) system, issued on a monthly or quarterly basis. This allows the Executive Engineer (EE) at the Divisions to issue Treasury checks up to the limit allocated under the LoC. Each Division maintains its accounts and submits monthly accounts to the Accountant General's Office.

64. ***Financial Management Capacity Assessment.*** Bank' policy requires that financial management arrangements for the projects be assessed to determine whether the entity implementing Bank financed project has acceptable financial management arrangements. The arrangements include the entity's system of budgeting, accounting, internal control, funds flow, financial reporting, and auditing. The entity's arrangements are acceptable if they are considered capable of recording correctly all transactions and balances, supporting the preparation of regular and reliable financial statements, safeguarding of the entity's assets, and are subject to auditing arrangements acceptable to the Bank. Bank policy requires that acceptable accounting and internal control systems are in place when project implementation begins.

65. Over several years of Bank's engagement in the state of Orissa, both by way of investment and development policy operations, substantial work has been done in understanding the public financial management environment in Orissa. A State Financial Accountability Assessment (SFAA) completed during the first half of 2004, concluded that fiduciary risk in Orissa is significant, mainly as a result of weaknesses in the practice of financial management rather than from inadequacy of the rules – the framework for which is centrally-determined. These conclusions are by no means, substantively different from the results from other jurisdictions in India.

66. Over the last two years, however, improving public financial accountability has become a central part of the reform program in Orissa. Based on the findings and recommendations of the State Financial Accountability Assessment, 2004, GOO prepared and approved a detailed Development Action Plan (DAP) in August, 2004. Since then, several measures have been initiated which, along with fiscal reform measures, have begun to bear fruit, as evidenced for instance by the fact that the State did not resort to overdraft or advances from RBI during 2004/05, for the first time in 22 years.

67. Many of the steps taken in the areas of budget execution, monitoring and cash management have produced visible positive results, and provide a strong trajectory for PFM improvement. GOO has demonstrated its will to continue the PFM reforms, evidenced by the scale and variety of actions underway.

68. ***Financial Management Design for the Proposed Project.*** The guiding principles for designing the financial management arrangements for the project would be to use the current OWD financial management systems, where considered satisfactory and meeting the essential fiduciary requirements.

69. The project will be budgeted for as a separate line under Planned Demand for Grants (No 07) in a manner that will allow for all project-related expenditures to be separately identified, accounted and reported in the consolidated Monthly Appropriation Report prepared by the Accountant General (AG) of Orissa. Details of expenditures by project components and sub components will be tracked at the scheme level and updated information available both at the AG as well as the departmental level.

70. Quarterly consolidated project Financial Management Reports (FMRs) will be prepared by the OWD tracking progress in expenditures by components/sub-components

against planned expenditures. These quarterly reports will need to be reconciled with the AG's records.

71. To demonstrate the benefits and applicability of this approach, the OWD will work with the State Finance Department to ensure that a separate budget line is (at the sub-head level) provided for the PPF (Project Preparation Facility) funds made available to Orissa for the preparation of the project – separate scheme level classification will allow expenditures to be tracked for (a) Construction of boundary pillars; (b) Technical assistance for developing project software and asset management systems; (c) Technical Assistance for preparation of next phase of project roads and promotion of PPP; (d) Technical Assistance for social development & environment impact management, promotion of PPP etc.; (e) Purchase of communication systems, computers and printers; and, (f) capacity building and training activities.

72. There appears to be a general practice in the budgeting and costing of works to add proportionate charges of Salaries, Tools & Plants and Pensionary Charges. The Mission clarified that the Bank financing will not cover such proportionate charges and that in budgeting for the project, a waiver should be obtained.

73. **Disbursement Arrangements.** The proposed approach to the design of the financial management arrangements for the project suggests that disbursements could be made based on interim financial reports, provided the Bank, GOO and GoI are satisfied with the quality and timeliness of the interim statements. For instance, the monthly Appropriation Account certified by the AG, Orissa could well serve as interim reports for disbursement from the Bank Loan.

74. The back to back financing arrangements for externally assisted projects will apply to this project. The bank will provide an initial advance to the GoI which will be transferred by GoI to GOO. Detailed implementation guidelines are currently being worked out by CAA&A and the DEA, GoI.

75. **Staffing at PCU.** With the project, the scale of operations is expected to increase significantly. With this, it is envisaged that the finance function related activities of requisition of funds, transfer of LoC, receipt of accounting information from the Divisions, reconciliations and periodic reporting etc. will need additional capacity. The Mission urged GOO to ensure that the agreed positions of the position of Divisional Accounts Officer and Financial Advisor for the PCU be filled in on a full time basis at the earliest.

76. **Accounting Software.** As part of the earlier Bank financed project (closed in the year 2000), OWD had developed a computerized financial management system. The system was designed to allow the Division's to generate the monthly financial reports, as required by the AG (as well as LACI based reports for the Bank purposes). This system however, could not be implemented during the life of the project. The Mission agreed with OWD's proposal to re-engage the consultants in a dialogue to explore the possibility to (a) upgrade the software in the light of new technology available; and (b) update the software in the light of revised system requirements.

J. Project Preparation Plan

77. **Project Timeline.** Table 4 below outlines the key actions to be completed before project appraisal and negotiations. Given the tight schedule, the mission encourages the OWD to maintain this time line for undertaking the agreed actions.

Table 4: Key Actions Agreed until next preparation mission

Tasks	Responsible	Target Date	Remarks
Staffing			
Officers from Revenue, Forestry, and Finance Department Assigned to the PCU	GOO	Early-August 2006	Staffing to include support staff as per the plan proposed by OWD
Additional engineers assigned to PCU	OWD	Early-August 2006	As per the staffing plan proposed by OWD
Environmental and Social Advisors recruited	OWD	Early-August 2006	
Project Coordinator-cum-Advisor appointed	GOO	Early-August 2006	
Convene the first meeting of the Project Steering Committee and thereafter hold bi-weekly meetings, or as and when required; provide minutes to the Bank for information	Development Commissioner	Mid-August 2006	
Techno-economic Aspects			
Economic Feasibility Study Completed	Consultant	End-September 2006	
Network Analysis and Prioritization Completed	Consultant	Mid-December 2006	
Engineering designs for First Year Roads Completed and Bid Document prepared	Consultant	Mid-December 06	Appraisal Condition
Bids for First Year Contracts Invited	GOO	May-07	Loan Negotiations Condition
List of Second Year Roads Confirmed	OWD	Mid-August 2006	
Social Development Aspects			
Affected structures and land identified for the first 42 km of Berhampur-Rayagada Road and Land Plan Prepared	Consultant/PCU	Early-August 2006	Para 28
Obtain RORs for first year roads	PCU/OWD	Mid-August 2006	Para 29
Initial Notification under Section 4 (1) of Land Acquisition Act Issued	PCU/GOO	Mid-August 2006	Para 29

Land Acquisition and R&R Completed for First Year Roads	PCU/GOO	End-January 2007	Negotiations Condition
Environment Impact Management			
Retailed EA methodology and Report Structure finalized and submitted to the Bank for comments with WB	Consultant	Early-August 2006	
Independent Environmental Review Consultant hired	OWD	Early-Sept 2006	
Disclosure all Environmental Documents in the World Bank InfoShop and project areas; executive summary translated to Oriya and disclosed locally	PCU/Consultant	End-Dec 2006	
Forestry, Environment, Wildlife and Pollution Control clearances obtained	GOO/OWD	End-Dec 2006	
Institutional Development Strategy			
Conduct Second ISAP Workshop and in principle endorsement by GOO	GOO	End-July 06	
Complete draft Institutional Strengthening Action Plan (ISAP)	PCU/ISPA Facilitator	Mid-August 06	
Finalize draft TORs and EOIs for various technical assistance and advisory service inputs for ISAP implementation	PCU	End-September 06	
ISAP Endorsed by GOO	GOO	End-Dec 2006	Negotiations Condition
Core Road Network identified and designated	PCU/OWD	Early January 2007	Appraisal Conditions
Chief Engineer, CRN assigned with separate Budget head	GOO	April 2007	
Procurement Processing			
Issue RFP to short listed firms for PPP Transaction Adviser services	PCU	Mid-August 2006	
Issue RFP o short listed firms for Asset Management System consultancy	PCU	Mid-August 2006	
Submit draft RFP for Project Management Consultant (Supervision Consultant for first year roads) to the Bank	PCU	End-August 2006	
Issue RFP for Project Management Consultant (Supervision Consultant for first year roads) to short listed firms	PCU	End-September 06	
Procurement Plan for first 18 month of work prepared	PCU	Mid-August 2006	
Financial Management Aspects			
Finance Department and OWD to work on creating a separate budget line is (at the sub head level) for the PPF (Project Preparation Facility) funds made available to Orissa for the preparation of the project	GOO	End-August 2006	
Establish contact and initiate dialogue with the CFMS consultants on updating and	PCU	Mid-August 2006	

upgrading of the application software for accounting and reporting of OWD			
Appoint Division Accounts Officer and Finance Advisor to PCU on a full time basis	PCU	Mid-August 2006	
Project Preparation and Approval Processing			
Project Preparation Mission	World Bank/OWD	November 2006	
Pre-Appraisal Mission	World Bank	January 2007	
Appraisal Mission	World Bank	March 2007	Appraisal Conditions to be met prior to appraisal mission
Loan Negotiations	WB/GOI/GOO	May 2007	Negotiations condition to be met prior to invitation for negotiations
Loan Approval	World Bank	July 2007	

List of Annexes:

1. Key Officials met
2. Social Impact Management and Safeguards
3. Environment Management
4. Procurement Assessment and Actions Required.

Annex 1

People Met During Mission

1	Sri A. U. Singh Deo	Honorable Minister, Works & Housing
2	Dr. Subas Chandra Pani (IAS)	Chief Secretary, Orissa
3	Dr. U. Sarat Chandran (IAS)	Development Commissioner & Additional Chief Secretary, Finance
4	Sri S. N. Tripathy (IAS)	Commissioner-cum-Secretary, IT & Rural Development Department
5	Er. A. B. Muni	E.I.C-cum-Secretary to the Government Works Department
6	Sri K. C. Badu (IAS)	Special Secretary, Finance
7	Dr. R. V. Singh (IFS)	Special secretary Planning & Coordination Department
8	Er. P. C. Samal	Chief Engineer, World Bank Project, Orissa
9	Er. J.M. Naik	Superintending Engineer, World Bank Project
10	Mr. Sukesh Gupta and Key Consultant Team	M/s C.E.G. Ltd.. Preparation Consultant for Project Roads
11	Er. B. B. Padhi	Executive Engineer, PCU, Orissa
12	Er. A. K. Ray	Executive Engineer, PCU, Orissa
13	Dr. N. C. Pal	Executive Engineer, PCU, Orissa
14	Sri S. N. Ahmed (OAS)	Land Revenue Officer, PCU, Orissa
15	Er. M. R. Mishra	Asst. Executive Engineer, PCU, Orissa
16	Er S. Hota	Assistant Engineer, PCU, Orissa

Social Impact Management and Safeguards

78. The project preparation mission focusing on social issues of the project was taken up in two phases – June 19-23 and July 6-8, 2006. During June 2006, field visits to some project road stretches (on Berhampur-Rayagada and Jagatpur-Kendrapara) were taken up besides participating in the consultative workshop organized on the institutional arrangement for implementing state R&R policy which was organized by the state government on June 19, 2006 and a state level workshop on HIV/AIDS on June 23, 2006. The mission had detailed discussions with the Project team and consultants engaged for preparing feasibility and detailed project report for Phase I roads. The consultants informed that the census survey of the potential affected families had been completed (except 90 km. Daspalla-Banarpar stretch of Banarpal-Aska road) including identification of all structures coming within 20 mtr. Right of Way (ROW). The data collected in the field has been entered in the computer for analysis. The survey results have been plotted on strip maps which indicate the structures coming within the 20 mtr. ROW. The detailed engineering designs would be super imposed on these strip maps to identify not only the extent of losses but also involvement of any land acquisition (LA) required accommodating any realignments in the road stretches. This will also help identify area outside 20 mtr. ROW, likely to be affected due to proposed interventions, for which identification of additional structures would need to be assessed. *It was agreed that this exercise (identifying affected structures and land required) would be completed for the first 42 km of Berhampur-Rayagada road, for which detailed designs had been completed, by July 20, 2006.* Based on this, the consultants would help PCU in preparing land plan (LP) schedules. This process would be applied in the subsequent stretches as detailed engineering designs are completed. In order to minimize adverse impact of the proposed interventions, it was agreed to follow the following guidelines:

- In urban/village (habitation) sections, where LA is not proposed confine the construction width to 16 mtrs (including 1 mtr. foot path and 1 mtr. murrum path on both sides) and where LA is proposed make it 20 mtr. ROW.
- In non-village sections, minimum width proposed is 25 mtr. if there is no LA and where LA is involved, the ROW will be 30 mtr..

79. During the last mission (January 2006), the consultants had reported difficulties in accessing land revenue records, particularly Record of Rights (ROR) to establish ROW. Discussions with OWD staff at the district level revealed that concerted efforts were not put to procure RORs from the district administration (DA). The mission, during its field visit discussed with the District Collectors (of Cuttack and Ganjam) and found their readiness to cooperate with OWD in arranging for RORs. This requires follow up with those concerned. The mission urged OWD staff to get RORs for the areas coming under first year packages which would help prepare LP schedules required to proceed with LA process. The mission urged PCU to initiate LA process to ensure that land required for first year packages are acquired before contracts are finalized. The mission cautioned that any slippages on this account would have serious impacts on the project approval

process. *It was agreed that the initial notification under section 4(1) of LA Act would be made by end July 2006, for the stretches designs have been completed.*

80. The mission re-emphasized that the output from the social assessment would include: a list of affected people along with the likely losses as a result of the project, Resettlement and Rehabilitation (R&R) framework, Resettlement Action Plan for the first year physical works, strategy/plan for tribal/community development, and strategies on consultation, communication and HIV/AIDS associated with the project. The social assessment and the associated implementation plans are also applicable to roads proposed to be covered under public-private partnership. The mission pointed out that the R&R framework should draw extensively from the recently approved state level Orissa R&R policy (2006) and will have additional R&R entitlements and measures required to ensure that those affected by the proposed project interventions are adequately supported to restore their livelihood. The mission observed that the consultants initiated discussions with Orissa State Aids Control Society (OSAC) to identify HIV/AIDS control measures being taken in the state. However, the mission urged PCU to take active participation in such discussions to ensure proper coordination with OSAC both in preparation and implementation of the proposed activities under HIV/AIDS component of the project. Some of the ideas given by the District Collectors of Cuttack and Ganjam on developing parking places for trucks and other highway vehicles with all amenities including medical services need to be taken into account while developing strategy for HIV/AIDS and community development. These parking places could be managed by the local communities.

81. The consultants are reported to have initiated the stakeholders' consultation at different levels – block, district and state. The mission emphasized the need to have a more structured consultation process in order to get meaningful feed back into the project design. The strategy on community development component of the project including the issues related to HIV/AIDS should largely be drawn from these feed back. The mission strongly recommended for documenting all consultations both in terms of the main issues raised and discussed and consensus reached.

82. Presently, the entire work of identifying and assessing social issues related to the project and the discussions with relevant stakeholders are being carried out by the consultants, with almost no active participation of PCU staff. The need is to take immediate steps to strengthen PCU on managing social issues related to the project. The mission was informed that PCU has prepared RFP for engaging Social Development Advisor (SDA). *It was agreed that the process of appointing a suitable candidate as SDA would be completed by mid August 2006.* As reported earlier, the incumbent Revenue Officer in PCU is too busy with his primary responsibilities in National Highways and hardly gets time to focus on LA requirement of the project. The mission expressed its serious concerns and warned that this may jeopardize the project preparation. The mission, therefore, recommended for a full time LA Officer along with support staff to work closely with the Feasibility Consultants on preparing land plan schedules and with the district administration to accelerate LA process for the project. This is expected to be completed once the Government approves the proposed institutional structure of PCU.

Environment Management

83. Detailed discussions with OWD and its consultants covered the over-all status of environmental activities for Phase I works; comprehensive review of the EA methodology including public consultation and assessment of impacts on wildlife; project appraisal targets including regulatory requirements (GoI, GOO and WB); and institutional arrangements for the project.

84. **Key findings of Environment Screening Process:** The Final Environment Screening was submitted by the consultants on June 9, 2006. The exercise has identified Rayagada-Bhawanipatna as environmentally most sensitive corridor followed by Berhampur-Rayagada. The link next in this order is Bhadrak-Karanjia, which passes through the buffer zone of Simlipal Biosphere Reserve. The key issues in these road sections are related to impacts on forests; wildlife; green tunnels, giant trees and plantation within RoW.

85. **EA Methodology:** The environment screening and scoping exercise has identified some key environmental concerns that need to be addressed through comprehensive EIA and EMP preparation covering extensive baseline surveys, systematic impact assessment, analysis of alternatives, public consultation and preparation of corridor specific management/mitigation plans. The mission reviewed in detail the proposed EIA methodology required in line with findings from the Environment Screening Report and provided comments for strengthening the various outputs to ensure improved synergy and integration between the various components such as engineering, environment and social during project preparation.

86. In view of the concerns related to quality and delay in the submission of Environment Screening Report, the mission suggested that a comprehensive methodology (in line with discussions during the mission) including the approach required assessing the issues related to wildlife should be shared with the Bank to minimize revisions/updates during the report finalization stage.

87. The wildlife-related assessment should include analysis of data/information generated from primary (surveys covering road users, village/communities residing along the road and consultation with specialists) and secondary (data available with Forest and Wildlife Department) sources. It was agreed that the detailed EA methodology along with survey formats and time schedule will be shared with the Bank by July 5, 2006.

88. **Regulatory Clearances:** The requirements of GoI and GOO with respect to Forestry, Tree Cutting, Pollution Control etc. were discussed in detail. The mission re-emphasized the need to initiate the various environmental clearance requirements in a time bound manner. The over-all 'clearance' schedule has to be tied-up with the project preparation schedule. The mission was assured that the OWD and its consultants will work out a time line in this regard and this will be shared with the Bank by July 31, 2006.

89. **Public Consultation:** The mission was concerned about the limited consultation exercise on aspects related to environment. It was emphasized that a well-planned and meaningful public consultation process (inclusive of a feedback mechanism) needs to be undertaken as part of EIA preparation. It was agreed that a time schedule for consultation with various stakeholders (including experts, NGOs etc.) and disclosure workshops will be shared with the Bank by July 10, 2006.

90. **Institutional Arrangements:** In order to ensure in-house understanding and long-term capacity building on environment concerns, one full time environment and social officer (Deputy Executive Engineer level) has been designated by OWD. The officer has been in place since Jan. 2006 and the mission was pleased to note his interest and involvement in the environment aspects of project preparation. However, the position of an Environmental Specialist within the PCU set-up is still vacant. The response to the advertisement given by PCU in this regard has been limited. The OWD assured that the appointment to this effect will be completed by **July 30, 2006**.

91. **Capacity Building:** Prior to project appraisal, an over-all training strategy and plan for effective environment management needs to be outlined. It was agreed that the first round of sensitization and awareness building for all staff involved in the project will be completed during the next mission visit. The mission has agreed to provide guidance, support and initial training to help build awareness and capacity on handling environmental aspects.

92. **Independent EA Review.** A sample Terms of Reference for Independent EA Review Consultant was provided to OWD prior to the mission. The scope of the work and the purpose of the assignment were also discussed and explained at length. The OWD informed that the consultant is likely to be appointed by August 2006.

93. **Requirements for Project Appraisal:** The mission identified the under-mentioned key actions/tasks that need to be completed prior to the project appraisal. It was agreed that a time schedule to complete these tasks will be shared with the Bank by July 31, 2006.

Task/Activity	Status
1. Environment Screening Report (including Screening Matrix and EA Scoping Executive Summary)	Completed
2. Disclosure of the Environment Screening Report at the local level and in Info Shop of WB and Executive Summary at the local level in Oriya	To be Done
3. EIAs and Corridor-specific EMPs for roads with proposed Phase I works incorporating comments provided by the Independent Review Consultants and the Bank (including inclusion of EIA and public consultation findings into engineering design and bid documents)	Initiated (Tree Surveys, Pollution Monitoring Surveys)
4. Independent Environment Assessment Study	To be Done
5. Disclosure of the EIAs and EMPs for Phase I works at the local level and in Info Shop of WB; and Executive Summary of the EIAs at the local level in	-

Oriya	
6. District and State level Disclosure Workshops	To be Done
7. Institutional arrangements for environment supervision and monitoring	Initiated
8. Preparation of a Training Plan on environment management	To be Done
9. Orientation and Training on Environmental Management of all OWD staff involved in the project (at least one round)	To be Done
10. Submission of applications for all regulatory clearances prior to appraisal (all permissions are required prior to project negotiations as per GoI/GOO requirements and WB's operational policies)	To be Done

94. *Agreed Actions*

- Finalization of detailed EA methodology and Report Structure with WB – Early August 2006.
- Finalization of a time schedule for public consultation and disclosure workshops – Mid-August 2006.
- Appointment of Environment Specialist in PCU. Mid-August, 2006
- Mobilization of Independent Environmental Review Consultant: September 2006
- Preparation of a time schedule to complete tasks/activities identified for Project Appraisal including time line on Regulatory Clearances (to be shared with WB): July 31, 2006.

Procurement Assessment and Actions Required

Actions Required	Due
Agree on appropriate dispute resolution provisions for contracts (at least for Bank financed ones, note that it is mandatory for ICB).	01/15/2007
Agree on list of unacceptable NCB issues and on removal from documents to be used for Bank financed procurement.	01/15/2007
Arrange for training on procurement planning.	12/31/2006
Build a system for the agency to implement or for future project.	12/31/2008
Develop and implement permanent training program for the staff in procurement operations.	06/30/2007
Develop or improve and implement complaint management system.	06/30/2007
Ensure "planners" have access to loan/credit agreements.	04/30/2007
Establish complaints review process by approving authority.	12/31/2006
Hire consultants temporarily to match technical skills requirements.	06/30/2007
Include preparation or revision of manual as an early activity in project cycle.	09/30/2006
Increase implementing agency's capacity	12/31/2007
Intense supervision.	
Involve technical staff and users in preparation of specifications.	09/30/2006
Prepare acceptable sample bidding documents.	12/31/2006